

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6455

BILL NUMBER: HB 1125

NOTE PREPARED: Jan 21, 2008

BILL AMENDED:

SUBJECT: Update of References to the Internal Revenue Code.

FIRST AUTHOR: Rep. Goodin

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that for taxable years beginning after December 31, 2007, references in Indiana law to the Internal Revenue Code and related regulations refer to the law and regulations in effect on January 1, 2008.

Effective Date: January 1, 2008 (retroactive).

Explanation of State Expenditures: (Revised) *Summary* - The bill updates the reference to the Internal Revenue Code (IRC) to incorporate all the federal changes made up to January 1, 2008. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2007. A noncode section of the bill provides that the changes due to the IRC reference update are effective beginning in tax year 2008. The update would include changes as a result of the following federal acts:

- (1) The Small Business and Work Opportunity Tax Act of 2007 (P.L. 110-28), signed into law May 25, 2007.
- (2) The Clean Renewable Energy and Conservation Act of 2007 (P.L. 110-140), signed into law December 19, 2007.
- (3) The Mortgage Forgiveness Debt Relief Act of 2007 (P.L. 110-142), signed into law December 20, 2007.
- (4) The Tax Technical Corrections Act of 2007 (no P.L. number yet), signed into law December 29, 2007.

It is estimated that the fiscal impact from the bill will begin in FY 2009. The estimated fiscal impact of the bill and the federal acts generating the fiscal impact are summarized in the table below. The Clean Renewable Energy Conservation Act and the Tax Technical Corrections Act are not expected to generate a fiscal impact.

Provisions (Revenue impact in millions)	FY 2009
Small Business and Work Opportunity Tax Act	(0.16)
Mortgage Forgiveness Debt Relief Act	
Exclusion of discharged principal residence mortgage debt (expires 12/31/09)	(3.0 - 3.5)
Exclusion of benefits paid to volunteer firefighters or EMTs (expires 12/31/10)	(0.35)
Exclusion of gains from home sale by surviving spouse	(0.01)
Subtotal	(3.4 - 3.9)
Total Impact on State Revenue	(3.5 - 4.0)

The *Small Business and Work Opportunity Tax Act* includes various provisions relating to the tax treatment of Subchapter S Corporations.

The *Mortgage Forgiveness Debt Relief Act* includes provisions excluding from gross income: (1) any income received by a taxpayer by reason of discharge, either in whole or in part, of debt on the taxpayers' principal residence (see discussion below); (2) up to \$500,000 of the gain from the sale of a principal residence by a surviving spouse if the sale takes place within two years of the death of the spouse; and (3) benefits provided to volunteer firefighters and EMS personnel (see discussion below).

Mortgage Discharge Exclusion - The exclusion for discharged mortgage debt is effective under the bill beginning in 2008 and expires at the end of 2009. Thus, the revenue loss under the bill would occur in FY 2009 and FY 2010. It is important to note that the revenue loss from the mortgage discharge exclusion could be higher than the estimate provided in the table due to the following factors:

- (1) The annual number of foreclosure sales occurring in 2008 and 2009 is higher than recent levels. The revenue loss estimate assumes 3,000 to 3,500 foreclosure sales based on 2007 totals.
- (2) The debt amounts being forgiven by creditors on average are more than assumed for the revenue loss estimate. The revenue loss estimate assumes an average of \$30,000 in debt forgiven on foreclosure sales.
- (3) Mortgage debt is forgiven by creditors under circumstances other than foreclosure sales such as short sales of homes prior to commencing foreclosure proceedings. The number of short sales transactions and other debt forgiveness that may occur is indeterminable.

Volunteer Firefighter/EMS Personnel Exclusion - The exclusion for benefits paid to volunteer firefighters and EMS personnel is effective beginning in 2008 and expires at the end of 2010. Thus the revenue loss from this exclusion would occur from FY 2009 through FY 2011. The exclusion is limited to \$360 per year per volunteer firefighter or EMT. It is estimated that there are approximately 20,000 volunteer firefighters, 8,000 volunteer EMTs, and 500 volunteer paramedics statewide that could potentially qualify for the exclusion.

Revenue from the corporate AGI Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Explanation of Local Revenues: The IRC update could potentially affect taxable income of individual taxpayers. The impact on counties imposing local option income taxes is indeterminable and would vary.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Realtytrac, <http://www.realtytrac.com/>. STATS Indiana, <http://www.stats.indiana.edu/>. U.S. Census Bureau, <http://www.census.gov/>. U. S. Congress, Joint Committee on Taxation, <http://www.house.gov/jct/tableofcnts.html>. Michelle Milliken, Indiana Department of Homeland Security, (317) 234-0945. Joanna Cornwell, Indiana Department of Homeland Security, (317) 234-4554.

Fiscal Analyst: Jim Landers, 317-232-9869.